

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

1a. Type of Work: ☒ DRILL ☐ REENTER

b. Type of Well: ☒ Oil Well ☐ Gas Well ☐ Other

2. Name of Operator

Yates Petroleum Corporation

3A. Address 105 South Fourth Street
Artesia, New Mexico 88210

3b. Phone No. (include area code)

(505) 748-1471 Cedar Canyon

4. Location of Well (Report location clearly and in accordance with any State requirements. *)

At surface 2310' FNL and 480' FEL

At proposed prod. Zone Same

14. Distance in miles and direction from nearest town or post office*

Approximately 34 miles east of Malga, New Mexico.

15. Distance from proposed*
location to nearest
property or lease line, ft.
(Also to nearest drig. unit line, if any)

480'

16. No. of Acres in lease

318.62

17. Spacing Unit dedicated to this well

40 acres

18. Distance from proposed location*
to nearest well, drilling, completed,
applied for, on this lease, ft.

.4 of mile

19. Proposed Depth

9250'

20. BLM/BIA Bond No. on file

585997

21. Elevations (Show whether DF, KDB, RT, GL, etc.)

3061' GL

22. Approximate date work will start*

ASAP

23. Estimated duration

45 days

24. Attachments Cased Controlled Water Basin

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

- Well plat certified by a registered surveyor.
- A Drilling Plan.
- A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office.
- Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
- Operator certification.
- Such other site specific information and/or plans as may be required by the authorized office.

25. Signature

Cy Cowan

Name (Printed/Typed)

Cy Cowan

Date

6/26/2006

Regulatory Agent

Regulatory Agent

Approved by (Signature)

/s/ Linda S. C. Rundell

Name (Printed/Typed)

/s/ Linda S. C. Rundell

Date

AUG 15 2006

Title

STATE DIRECTOR

Office

NM STATE OFFICE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*(Instructions on reverse)

C-144 attached

DECLARED WATER BASIN
CEMENT BEHIND THE 13 3/4"
CASING MUST BE CIRCULATED
WITNESS

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

0 330' 660' 990' 1650' 1980' 2310' 2310' 1980' 1650' 990' 660' 330' 0

B. CEMENTING PROGRAM:

Surface casing: 350 sx Lite "C" (YLD 1.98 WT 12.6); Tail in w/ 200 sx Class "C" + 2% CaCl₂ (YLD 1.36 WT 14.8).

Intermediate Casing: 600 sx Lite "C" (YLD 2.18 WT 12.4); Tail in w/ 200 sx "C" + 2% CaCl₂ (YLD 1.31 WT. 14.8)

Production Casing: Stage I: TOC 6000', 800 sx Pecos VILt (YLD 14.1 WT 13.0)
Stage II: 700 sx Lite Crete (YLD 2.78 WT 9.90); Tail in w/ 100 sx Pecos VILt (YLD 13.0 WT 1.48)

5. Mud Program and Auxiliary Equipment:

<u>Interval</u>	<u>Type</u>	<u>Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-700'	Fresh Water	8.6-9.2	32-34	N/C
700'-3150'	Brine	10.0-10.2	28	N/C
3150'-8000'	Cut Brine	8.8-8.8	28	N/C
8000'-9150'	Cut Brine	8.8-8.9	28	N/C
9150'-9250'	Cut Brine	8.9-9.10	28	<15-20

Sufficient mud material(s) to maintain mud properties, control lost circulation and contain a blow out will be available at the well site during drilling operations. Mud will be checked hourly by rig personnel.

6. EVALUATION PROGRAM:

Samples: 30' samples surface to 3000'; 10' samples 3000'-TD.

Logging: Platform HALS; CMR.

Coring: None Anticipated.

DST's: As warranted.

7. Abnormal Conditions, Bottom hole pressure and potential hazards:

Anticipated BHP:

From: O	TO: 700'	Anticipated Max.	BHP: 325	PSI
From: 700'	TO: 3150'	Anticipated Max.	BHP: 1670	PSI
From: 3150'	TO: 9250'	Anticipated Max.	BHP: 4375	PSI

No abnormal pressures or temperatures are anticipated.

Lost Circulation Zones Anticipated: None.

H₂S Zones Anticipated: None

Maximum Bottom Hole Temperature: 168 F

8. ANTICIPATED STARTING DATE:

Plans are to drill this well as soon as possible after receiving approval. It should take approximately 30 days to drill the well with completion taking another 15 days.

MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Yates Petroleum Corporation

Knoll AOK Federal #3

2310' FNL & 480' FEL

Section 3-T24S-R29E

Eddy County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

1. EXISTING ROADS:

Exhibit A is a portion of the BLM map showing the well and roads in the vicinity of the proposed location. The proposed wellsite is located approximately 36 miles east of Malaga, New Mexico and the access route to the location is indicated in red and green on Exhibit A.

DIRECTIONS:

Go east of Malaga, New Mexico on Duarte Road (CR-720) for .7 of a mile to Harroun Road (CR-745). Turn left on Harroun Road and go approx. 2.9 miles to Dog Town Road (CR-788). Turn right on Dog Town Road and go approx. 1.1 miles. Turn left here on caliche road and go 1.9 miles. Turn left here at a cattleguard and go past dry hole location with tanks on it to one more cattleguard. From the cattleguard go north on lease road for approx. .4 of a mile to the River Bend Federal #1 well. Follow the lease road to the left and go up the hill for approx. .6 of a mile to the HB 3 Federal #2 Battery. Follow the lease road for approximately .8 of a mile. The new road will start here going north for approximately 300 feet to the southeast corner of the proposed well location. Please note this road will pass the proposed Knoll AOK Federal #3 location while going to the Knoll AOK Federal #2.

2. PLANNED ACCESS ROAD.

- A. The proposed new access will be approximately 300 feet going north to the southeast corner of the drilling pad. The road will lie in a south to north direction.
- B. The new road will be 14 feet in width (driving surface) and will be adequately drained to control runoff and soil erosion.
- C. The new road will be bladed with drainage on one side. Traffic turnouts may be built.
- D. The route of the road is visible.
- E. Existing roads will be maintained in the same or better condition.

3. LOCATION OF EXISTING WELL

- A. There is drilling activity within a one-mile radius of the wellsite.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed wellsite.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES

- A. There are production facilities on this lease at the present time.
- B. In the event that the well is productive, the necessary production facilities will be installed on the drilling pad. If the well is productive oil, a gas or diesel self-contained unit will be used to provide the necessary power. No power will be required if the well is productive of gas.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with a fresh water system. The fresh water will be obtained from commercial sources and will be hauled to the location by truck over the existing and proposed roads shown in Exhibit A.

6. SOURCE OF CONSTRUCTION MATERIALS:

Dirt contractor will locate closest pit and obtain any permits and materials needed for construction.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. All trash, junk, and other waste materials will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary land fill. Burial on site is not approved.

8. ANCILLARY FACILITIES: None

9. WELLSITE LAYOUT:

- A. Exhibit C shows the relative location and dimensions of the well pad, the reserve pits, the location of the drilling equipment, rig orientation and access road approach.
- B. The reserve pits will be plastic lined and will face to the north. Yates Petroleum Corporation is in full compliance with the OCD General Plan for Drilling Pits approved on April 15, 2004.
- C. A 600' x 600' area has been staked and flagged.

10. PLANS FOR RESTORATION

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. Unguarded pits, if any, containing fluids will be fenced until they have dried and been leveled.

- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level after they have evaporated and dried.

11. SURFACE OWNERSHIP: Federal surface, Administered by the Bureau of Land Management, Carlsbad, New Mexico.

12. OTHER INFORMATION:

- A. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, historical and cultural sites.
B. The primary surface use is for grazing.

13. OPERATOR'S REPRESENTATIVE

A. Through A.P.D. Approval:

Cy Cowan, Regulatory Agent
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

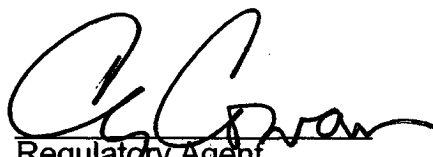
B. Through Drilling Operations,
Completions and Production:

Pinson McWhorter, Operations Manager
Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Phone (505) 748-1471

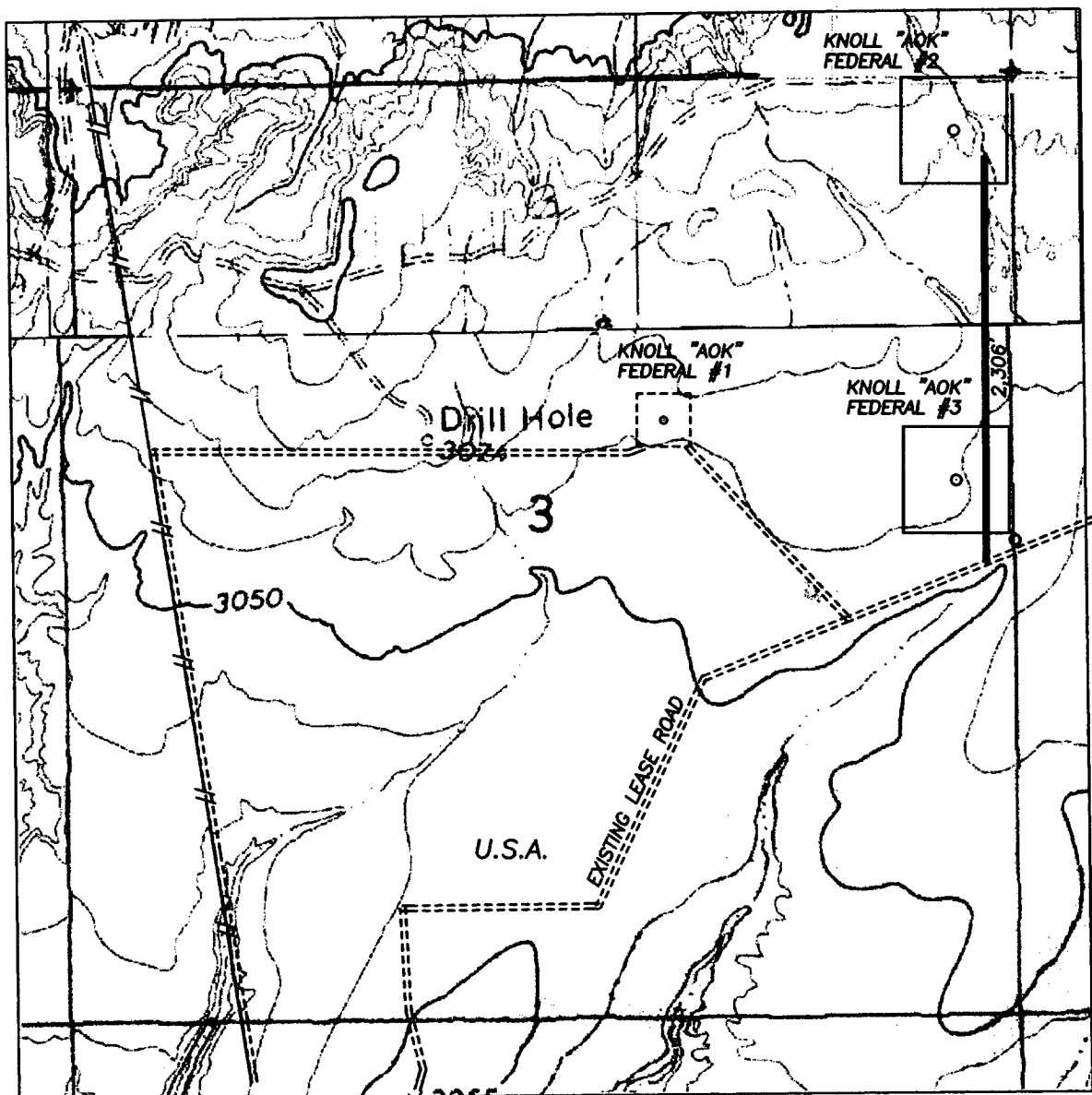
14. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route, that I am familiar with the conditions which presently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and , that the work associated with the operations proposed herein will be performed by Yates Petroleum Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

6/26/2006


Regulatory Agent

SECTION 3, TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM, EDDY COUNTY, NEW MEXICO.



1000' 0 1000' 2000'
Scale 1" = 1000'

THE PREPARATION OF THIS PLAT AND THE PERFORMANCE OF THE SURVEY UPON WHICH IT IS BASED WERE DONE UNDER MY DIRECTION AND THE PLAT ACCURATELY DEPICTS THE RESULTS OF SAID SURVEY AND MEET THE REQUIREMENTS OF THE STANDARDS FOR LAND SURVEYS IN NEW MEXICO AS ADOPTED BY THE NEW MEXICO STATE BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS.

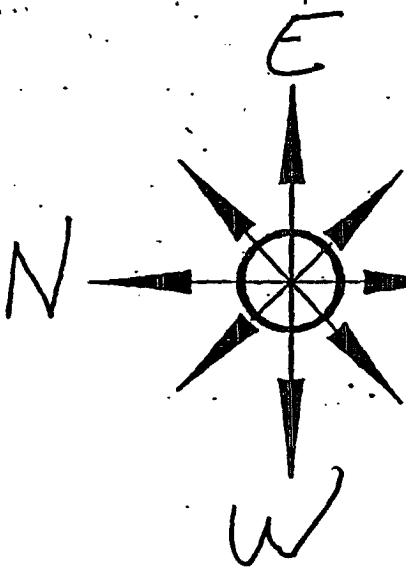
HERSCHEL L. JONES, P.E., No. 3640

GENERAL SURVEYING COMPANY P.O. BOX 1928
LOVINGTON, NEW MEXICO 88260

YATES PETROLEUM CORP.

LEASE ROAD TO ACCESS THE YATES KNOLL "AOK" FEDERAL #2 & 3 WELLS, LOCATED IN SECTION 3, TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM, EDDY COUNTY, NEW MEXICO.

Survey Date: 4/10/2006	Sheet 1 of 1 Sheets
Drawn By: Ed Blevins	W.O. Number
Date: 4/12/06	Scale 1" = 1000' KNOLL 2&3



Yates Petroleum Corporation

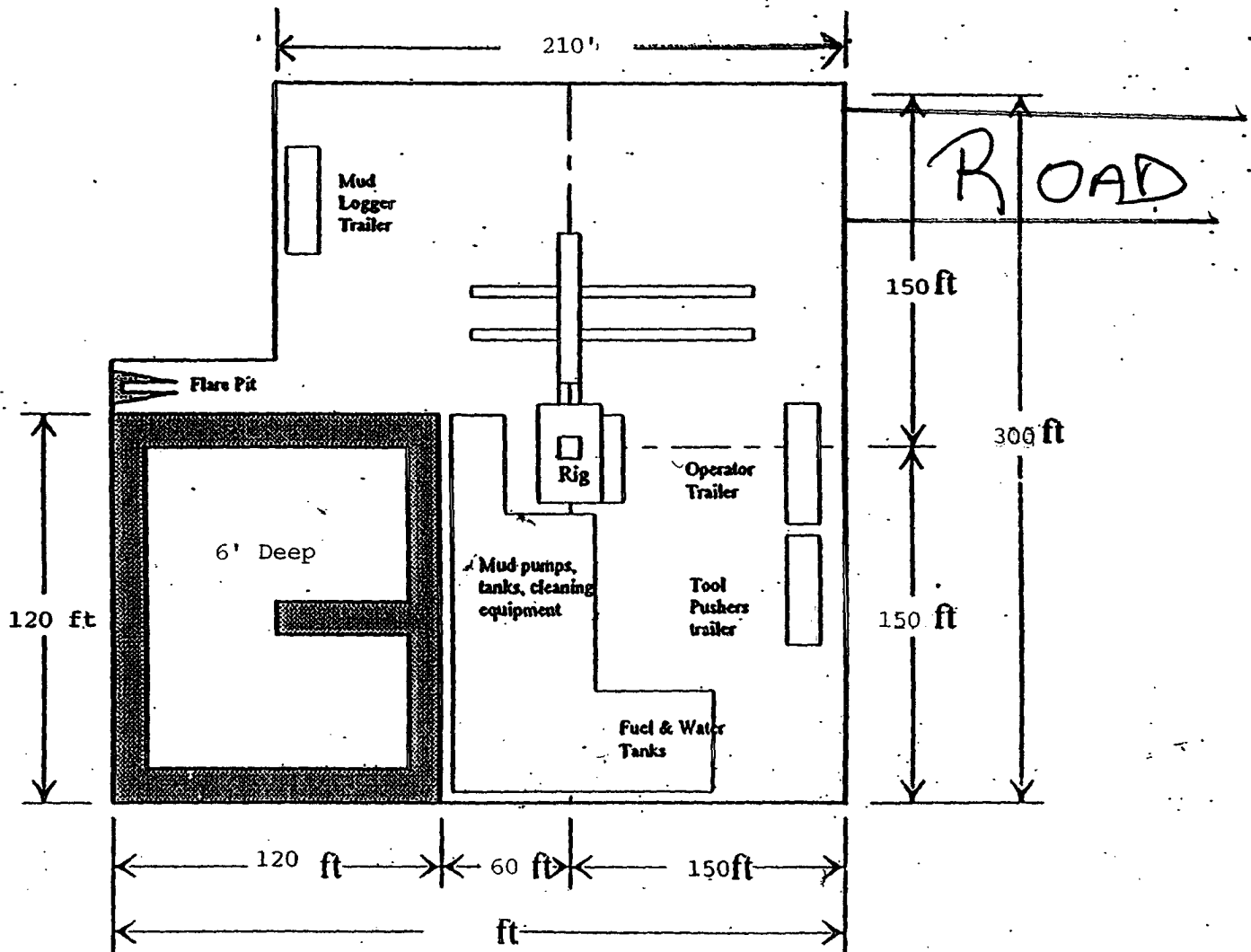
Location Layout for Permian Basin
Up to 12,000'

PB - L1

S Pits North

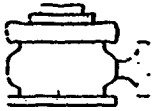
Yates Petroleum Corporation
Knoll AOK Federal #3
2310' FNL and 330' FEL 480'
Section 3, T24S-R29E
Eddy County, New Mexico

OP



Distance from Well
Head to Reserve Pit
will vary between rigs

The above dimension
should be a maximum

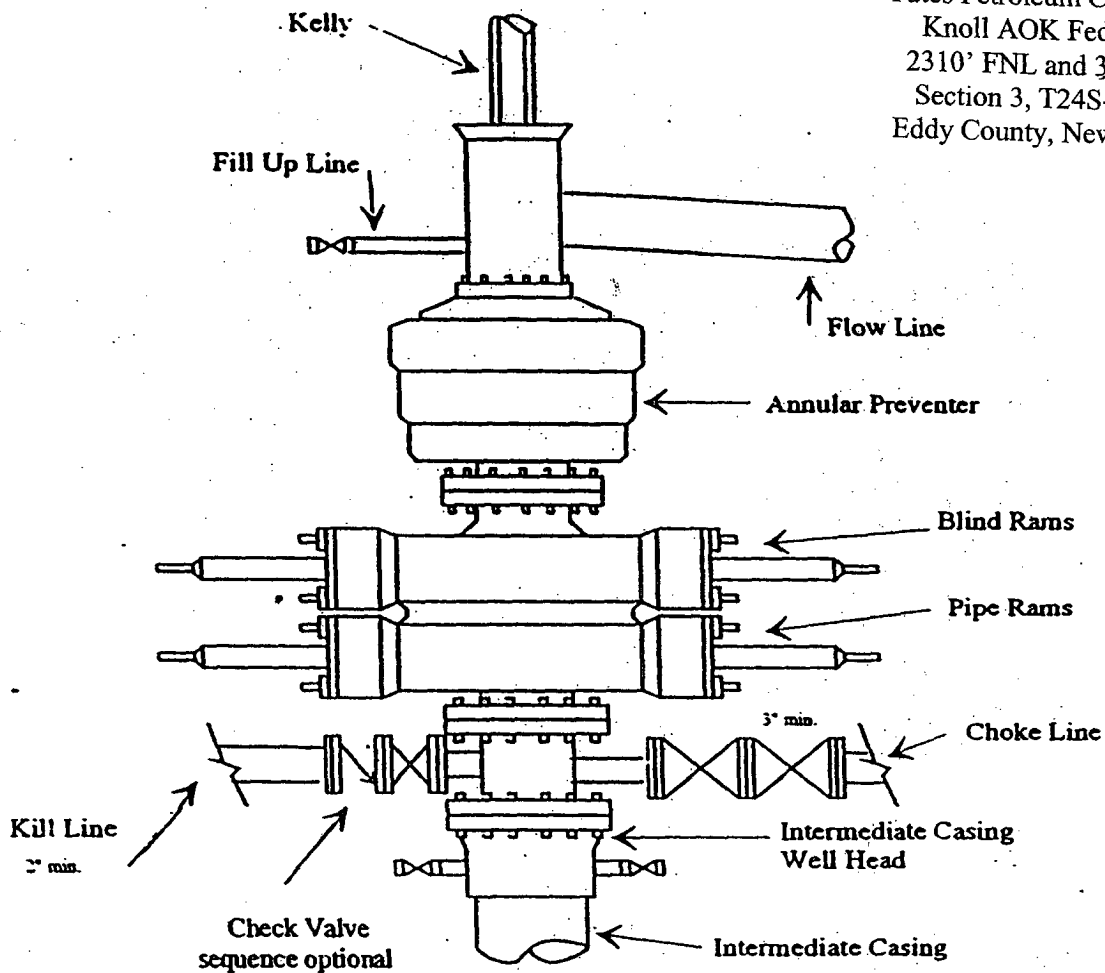


Yates Petroleum Corporation

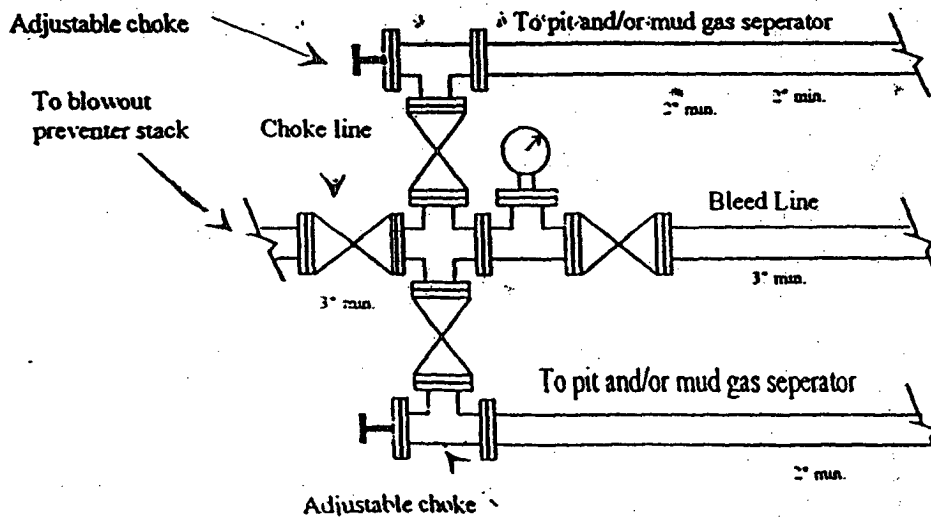
BOP-3

Typical 3,000 psi Pressure System Schematic Annular with Double Ram Preventer Stack

Yates Petroleum Corporation
Knoll AOK Federal #3
2310' FNL and ~~330'~~ 480' FEL
Section 3, T24S-R29E
Eddy County, New Mexico



Typical 3,000 psi choke manifold assembly with at least these minimum features



CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Yates Petroleum Corporation Well No. 3 - Knoll AOK Federal

Location: 2310' FNL & 480' FEL sec. 3, T. 24 S., R. 29 E.

Lease: NM-85891

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I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at (505) 361-2822 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 13-3/8 inch 8-5/8 inch 5-1/2 inch

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

4. Gamma-Ray/Neutron logs shall be run from the base of the Salado formation to the surface; cable speed not to exceed 30 feet per minute.

II. CASING:

1. 13-3/8 inch surface casing should be set at approximately 700 feet in the Rustler Anhydrite above the Top of the Salt, below usable water and circulate cement to the surface. If cement does not circulate to the surface, the BLM Carlsbad Field Office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. Minimum required fill of cement behind the 8-5/8 inch intermediate casing is sufficient to circulate to the surface.

3. Minimum required fill of cement behind the 5-1/2 inch production casing is sufficient to tie back 500 feet above the uppermost perforation in the pay zone.

III. PRESSURE CONTROL:

1. Before drilling below the 13-3/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer or Two Ram-Type Preventers and a Kelly Cock/Stabbing Valve. Before drilling below the 8-5/8 inch intermediate casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.

2. Before drilling below the 13-3/8 inch surface casing, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi. Before drilling below the 8-5/8 inch intermediate casing, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 3000 psi.

3. Before drilling below the 8-5/8 inch intermediate casing, the BOPE shall be installed and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

A. The results of the test will be reported to the BLM Carlsbad Field Office at 620 East Greene Street, Carlsbad, New Mexico 88220-6292.

B. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

C. Testing must be done in a safe workman like manner. Hard line connections shall be required.